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**TESTIMONY OF
THOMAS B. MODLY
DEPUTY UNDER SECRETARY OF DEFENSE (FINANCIAL MANAGEMENT)
BEFORE
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND
ACCOUNTABILITY
OF THE
HOUSE COMMITTEE ON GOVERNMENT REFORM**

June 8, 2005

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Statement of Thomas B. Modly
Deputy Under Secretary of Defense (Financial Management)
House Committee on Government Reform
Subcommittee on Government Management, Finance and
Accountability
8 June 2005

Mr. Chairman, members of the Committee, I appreciate this opportunity to address your concerns about the Department's progress in the area of business systems modernization and improved financial management. Over the last several months, we have taken a significant step forward in our business transformation efforts and I am grateful for the opportunity to discuss this progress with you today. I was appointed to my current position as Deputy Under Secretary of Defense for Financial Management in February of this year. Prior to my appointment, I had been serving in the Department of Defense as the Executive Director of the Defense Business Board. This Board of 20 distinguished private sector senior executives has been providing advice and recommendations to the Secretary of Defense over the last three years regarding transformational strategies for the Department's business mission. These recommendations have as their foundation fundamental principles of best business practices from the private sector. The Comptroller General has been an active observer of the Board's proceedings, and so many of his thoughts have been debated and discussed by the Defense Business Board as well.

My experience with the Defense Business Board, as well as my own private sector experience, has been critical to building my understanding of the challenges we face as a Department. There is no larger or more complex organization in the world than the Department of Defense. However, lessons learned from other large and complicated entities can still be applied to good effect if we recognize the scale and scope of our environment, and are smart about the way we apply them.

As a Department we have identified, and are actively correcting, the problems we have had in modernizing our business systems. We agree with the specific recommendations cited by GAO in their recent report, and we are taking specific action to address each one. What is not apparent in the GAO report, however, is the progress that we have made, and continue to make, in transforming our business systems environment and the broader progress we have made at transforming financial management across the Department.

Since assuming my current position, I have been working very closely with my colleague, Mr. Paul Brinkley, to shift the Business Management Modernization Program from its previous architecture and discovery phases to an implementation phase. Mr. Brinkley and I are currently co-leading this program to demonstrate to the organization the importance of, and power behind, breaking down institutional silos in the Department. We are trying to build a broad recognition of a DoD

enterprise, as opposed to separate and distinct enterprises drawn together by functional similarities such as financial management, human resources, acquisition, or logistics. The program is now focusing on the rapid delivery of DoD enterprise systems and standards. As a result, over the last several months, the program has developed an interim Transition Plan detailing the Department's current plans for enterprise systems evolution and migration. More importantly, the program has established a set of clear DoD enterprise priorities for new systems and capabilities and it has established a tiered approach with the Components to guide the further development of the enterprise architecture. A final Transition Plan and release of the architecture, as required by law, will be delivered to Congress in September, 2005.

Further reinforcing the drive to an enterprise approach to business transformation, we have established the Defense Business Systems Management Committee (DBSMC). As chairman of the committee, the Deputy Secretary of Defense designated the Under Secretary of Defense (AT&L) as the vice chair. Concurrent with that designation, the Under Secretary of Defense (AT&L) has assumed direct responsibility for the program management of BMMP. This will facilitate better cost, schedule, and performance management for the critical DoD enterprise business systems programs. The Deputy Secretary's active role on the

DBSMC has elevated overall management responsibility for business transformation to the highest levels in the Department.

Concurrent with the formation of the DBSMC, we also established Investment Review Boards (IRBs) that will be required to approve investments in excess of \$1 million. These IRBs will be led by the Under Secretaries for AT&L, Comptroller, and P&R. Standard procedures that streamline the current systems certification process have been established by the DBSMC and we will implement them immediately. A shift to the new streamlined investment review process will ensure a more rapid completion of the remaining systems reviews required for this year. More specific details about the BMMP realignment and our approach to systems investments will be addressed by Mr. Brinkley in his prepared remarks.

DoD Financial Management Progress

Although the successful implementation of BMMP enterprise priorities will have a significant long-term impact on the business operations of the Department, BMMP is not the Comptroller organization's sole focus in our day-to-day efforts to improve DoD financial management. We are committed to eliminating all other DoD financial management deficiencies identified as "high-risk" areas by the Government Accountability Office, and we are developing a realistic plan to affirm our successes through the financial audit process. This plan, which is currently

being refined and integrated with the BMMP Transition Plan, already has key milestones we expect to achieve by 2007, including a significant increase in the Department's balance sheet line items that we expect the auditors will determine have been accurately stated.

Critical progress toward the audit goals, and the overall goal of improving financial management support for warfighter needs has been made in several key areas. A few examples are as follows:

- **Development of a Standard Financial Information Structure (SFIS).**

The Department currently does not have a common language through which it can communicate financial information. Each service, or component, uses unique coding structures that may or may not be consistent with each other. As a result, comparing and rolling up data from subsidiary systems is fraught with imprecision and error. We are addressing this problem by developing a common financial language called the Standard Financial Information Structure (SFIS). Last week we completed the first phase data elements for this language and we will begin implementation this summer across the Department as we develop subsequent, more detailed phases of the language.

- **Near Real-Time Financial Data.** Through a test program with U.S. Special Operations Command, we have proven the capability to use an automated system to assemble and report near-real time financial information. Until recently, the level of information provided by this system took up to 60 days to produce through the Department's antiquated systems and processes. We intend to scale up this capability and provide similar information Department-wide. The Standard Financial Information Structure will ensure greater fidelity of this data.
- **Fund Balance with Treasury Assertions.** Two of the military departments (Air Force and Army) are almost ready for audit confirmation of the "Fund Balance with Treasury" line items on their respective balance sheets. This represents 12 % of the Department's assets. Favorable audit results for these line items will affirm the accuracy of a large portion of our account balance with Treasury and provide a baseline for confirming the accuracy of other line items such as accounts payable.
- **Military Equipment Valuation.** Since December, we have completed an initial valuation of an additional 223 military equipment programs, bringing our total to 735. We are well on our way to completing valuations for all 1,086 military equipment programs. This is critical to developing a baseline

valuation for our military equipment to accurately report the largest asset category on our balance sheet (27% of assets).

- **Reconciliation of Personnel Pay Records.** We have completed a detailed review of over 600,000 military pay records to ensure the accuracy of records being migrated into the new pay system, Forward Compatible Pay. Forward Compatible Pay will significantly modernize our payroll system, making it easier to ensure timely and accurate pay for our service men and women. It will serve as an interim solution to critical military pay problems until delivery of the Defense Integrated Military Human Resources System (DIMHRS), which will integrate the personnel and payroll functions. We view the prompt and proper payment of our soldiers, sailors and airmen as our most important responsibility, and priority, and we will continue to do all we can to reduce errors that cause hardships, or inconveniences of any kind.

Closing

In closing, I would like to emphasize that systems improvements and reductions should not be viewed as the sole drivers of business transformation. DoD culture also must change, as well as many of our fundamental business processes. Such change is being driven from the top through the active

engagement of both the Secretary and the Deputy Secretary of Defense. The Deputy Secretary, in particular, is asserting his leadership of the DBSMC in support of the new alignment of the BMMP, and through a thorough review of all business systems investments greater than \$1 million. Senior leadership is engaged and committed, and our success will be a direct result of broad cooperation, collaboration, integration, and cultural change across the Department. Thank you.